

December 10, 2002



# Financial Management

Adjustments to the  
Intergovernmental Payments  
Account  
(D-2003-034)

Office of the Inspector General  
of the  
Department of Defense

Constitution of  
the United States

A Regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time.

Article I, Section 9

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**Acronyms**

|        |  |
|--------|--|
| DFAS   | Defense Finance and Accounting Service         |
| FBWT   | Fund Balance With Treasury                     |
| GAO    | General Accounting Office                      |
| IG DoD | Inspector General of the Department of Defense |



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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December 10, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/  
CHIEF FINANCIAL OFFICER  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Report on Adjustments to the Intergovernmental Payments Account  
(Report No. D-2003-034)

We are providing this report for your information and use. We performed the audit in support of our annual audits of the DoD Agency-Wide Financial Statements. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Brian M. Flynn at (703) 604-9489 (DSN 664-9489) or Mr. Robert E. Benefiel, Jr., at (703) 604-9211 (DSN 664-9211). See Appendix F for the report distribution. The team members are listed inside the back cover.

*David K. Steensma*  
for David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## **Office of the Inspector General of the Department of Defense**

**Report No. D-2003-034**

(Project No. D2001FD-0192.000)

**December 10, 2002**

### **Adjustments to the Intergovernmental Payments Account**

#### **Executive Summary**

**Who Should Read this Report and Why?** Accounting personnel responsible for reconciling suspense accounts and adjusting closed appropriations should read this report. The report discusses the need for documentation to support adjustments to closed appropriations.

**Introduction.** We performed the audit in support of our annual audits on the Fund Balance With Treasury account (an asset account) and the DoD Agency-Wide Financial Statements. The financial statement audits are required by the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, and the Federal Financial Management Improvement Act of 1996. The FY 2001 DoD Agency-Wide Financial Statements reported total assets of \$707.2 billion, including \$190.1 billion in the Fund Balance With Treasury account.

This report focuses on improper adjustments to clearing account F3885, Undistributed Intergovernmental Payments. Account F3885 (the intergovernmental payments account) contains transactions that are not posted (distributed) to DoD appropriations in the DoD financial accounting records. As of February 28, 2002, the DoD had a combined \$798.2 million balance in the intergovernmental payments accounts of the Army, Navy, Air Force, and Defense agencies. The Navy accounted for \$732.4 million (91.8 percent) of the balance.

**Results.** DFAS Cleveland and the Navy improperly approved adjustments totaling \$65.9 million and processed \$53.3 million in adjustments from the intergovernmental payments account to closed Navy appropriations without sufficient supporting documentation. Without sufficient documentation, the adjustments should not have been approved and are, therefore, improper. Also, DFAS Cleveland did not identify adjustments from the intergovernmental payments account to closed appropriations within its assessable units and therefore, did not identify the material management control weakness identified by the audit. The adjustments to closed Navy appropriations were improper, and reflect an overall weakness in the control environment for the DoD Fund Balance With Treasury account.

Improved guidance will assist accounting personnel in determining the minimum documentation that they can accept as support for adjustments to closed appropriations. The guidance should describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date. The guidance

should also include a flowchart mapping the decisions and documents required to adjust closed accounts referenced to specific paragraphs in the guidance. Management should expand its self-evaluations of management controls to cover adjustments to closed appropriations to provide the oversight and improvement these issues require.

**Management Comments.** The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurred and agreed to revise the DoD Financial Management Regulation to describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date, and to include a flowchart mapping the decisions and documents required to adjust closed accounts. The Acting Director, Defense Finance and Accounting Service Cleveland concurred and agreed to revise standard operating procedures to clarify the supporting documentation required to identify the proper appropriation for adjustments and to add examples of documentation, based on coordination with the Office of the Assistant General Counsel, to identify the appropriation for transactions in suspense accounts. The Acting Director also agreed to reverse the transactions posted to closed appropriations back to account F3885 and to evaluate the adjustments process for the FY 2003 Annual Statement of Assurance. See the Management Comments section for the complete text of the management comments.

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## Background

We performed the audit in support of our annual audits on the Fund Balance With Treasury (FBWT) account (an asset account)<sup>1</sup> and the DoD Agency-Wide Financial Statements. The financial statement audits are required by Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994, and Public Law 104-208, the “Federal Financial Management Improvement Act of 1996,” September 30, 1996. The FY 2001 DoD Agency-Wide Financial Statements reported total assets of \$707.2 billion, including \$190.1 billion in the FBWT account.

The overall audit objective was to assess controls over the collections and disbursements reported to the Defense Finance and Accounting Service (DFAS) centers and the Department of the Treasury. This report focuses on improper adjustments to clearing account F3885, Undistributed Intergovernmental Payments. Account F3885 (the intergovernmental payments account) contains transactions that are not posted (distributed) to DoD appropriations in the DoD financial accounting records. As of February 28, 2002, the DoD had a combined \$798.2 million balance in the intergovernmental payments accounts of the Army, Navy, Air Force, and Defense agencies. The Navy accounted for \$732.4 million (91.8 percent) of the \$798.2 million balance in the DoD intergovernmental payments accounts.

As discussed in our November 2001 report on the FBWT account,<sup>2</sup> the Department of the Treasury makes disbursements and collections for most Federal agencies. Congress provided disbursement authority to DoD under section 3321, title 31, United States Code (31 U.S.C. 3321). DoD established disbursing stations to handle funds from the Department of the Treasury.

**Disbursing Stations.** The disbursing stations are authorized to make deposits, initiate interagency transfers, and issue U.S. Treasury Checks. Disbursing stations are accountable to the Department of the Treasury for their disbursements and collections. Each disbursing station is required to prepare the following reports monthly.

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<sup>1</sup> Statement of Federal Financial Accounting Standards No. 1, “Accounting for Selected Assets and Liabilities,” March 30, 1993, defines a Federal entity’s Fund Balance With Treasury account as the aggregate amount of funds in the entity’s accounts with the Department of the Treasury from which the entity is authorized to make expenditures and pay liabilities.

<sup>2</sup> IG DoD Report No. D-2002-019, “Checks Issued Differences for Deactivated Disbursing Stations,” November 28, 2001.



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- SF 1219, “Statement of Accountability,” reports information to the Department of the Treasury on deposits,<sup>3</sup> interagency transfers,<sup>4</sup> and checks issued. The Statement of Accountability also reports net disbursements—the sum of the deposits, interagency transfers, and checks issued that month.
  - SF 1220, “Statement of Transactions,” reports the disbursements shown on the Statement of Accountability by appropriation. The Department of the Treasury requires that the net disbursements reported on the Statement of Transactions agree with the net disbursements reported on the Statement of Accountability.

**Finance Centers.** The DoD finance centers make intergovernmental payments through the Interfund Billing System.<sup>5</sup> The finance centers report intergovernmental payments made through the Interfund Billing System on the DD Form 1400, “Statement of Interfund Transactions.” The Statement of Interfund Transactions reports intergovernmental payments, made through the Interfund Billing System, by appropriation. (See Appendix C for a discussion of the Statement of Transactions, the Statement of Interfund Transactions, and the Fund Balance With Treasury account.)

**Disbursing Activity.** During FY 2001, DoD disbursing stations and finance centers made \$341.9 billion of disbursements, including disbursements made through electronic funds transfer (\$256.3 billion), interagency transfers (\$31.1 billion), checks issued (\$31.1 billion), and intergovernmental payments (\$23.4 billion).

The Statements of Transactions and the Statements of Interfund Transactions include entries to “clearing accounts” that receive payments with invalid or incorrect fund citations. (See Appendix D for a discussion of Department of the Treasury and DoD guidance on the use of the intergovernmental payments account.)

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<sup>3</sup> The Statement of Accountability reports deposits and electronic funds transfers as a combined total.

<sup>4</sup> Interagency transfers are made through the On-line Payment and Collection (OPAC) system and the SF-1080, “Voucher for Transfer Between Appropriations and/or Funds.” Beginning in May 2001, the Department of the Treasury began replacing the OPAC system with the Intra-governmental Payment and Collection system.

<sup>5</sup> The Interfund Billing System includes supply system sales and purchases of material, including perishable subsistence and fuels, between the Army, Navy, Air Force, and Defense agencies.

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## Objectives

The overall audit objective was to assess controls over the collections and disbursements reported to DFAS centers and the Department of the Treasury. This report focuses on the objective as it applies to adjustments of the intergovernmental payments account. We also reviewed the adequacy of the management control program as it applied to the audit objective. Appendix A discusses the audit scope and methodology and the review of the management control program, and Appendix B lists prior audits related to the objectives.

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## Adjustments to the Intergovernmental Payments Account

DFAS Cleveland and the Navy improperly approved adjustments totaling \$65.9 million and processed \$53.3 million in adjustments from the intergovernmental payments account to closed Navy appropriations without sufficient documentation to support the adjustments. Without sufficient documentation, the adjustments should not have been approved and are, therefore, improper. The improper approvals might not have occurred if DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements, and Suspense Accounts,” January 2001; and DFAS Cleveland Standard Operating Procedure 7310.05, “Closed Appropriation Transaction Processing,” October 25, 2001, had more clearly and specifically described the documentation required to support adjustments from the intergovernmental payments account to closed appropriations. In addition, DFAS Cleveland Procedure 7310.05 did not require DFAS Cleveland accountants to coordinate with the Office of Assistant General Counsel, DFAS Cleveland, to determine the propriety of adjustments to closed appropriations. Also, DFAS Cleveland did not identify adjustments from the intergovernmental payments account to closed appropriations within its assessable units, and therefore, did not identify the material management control weakness identified by the audit. The adjustments to closed Navy appropriations were improper and reflect an overall weakness in the control environment for the DoD FBWT account.

## Appropriation Accounting

The Congress generally provides budget authority to an agency for obligation during a specific period, referred to as the period of availability. During this period of availability, the agency may incur new obligations and charge them against the appropriation. After the period of availability, the appropriation may not be used to incur new obligations.

**United States Code (31 U.S.C. 1551-1558).** Chapter 15, subchapter IV, “Closing Accounts,” of title 31, United States Code, establishes Federal law regarding the closing of appropriation accounts. Subchapter IV states that after the period of availability for obligation, the account remains available for 5 years for recording, adjusting, and making disbursements to liquidate obligations that were properly chargeable to the account. At the end of the 5-year period, the appropriation account closes, and any remaining obligated and unobligated balances are canceled. The closed appropriation account is not available for obligation or expenditure for any purpose. After an account closes, obligations and adjustments to obligations that would have been properly

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chargeable to the account before closing may be charged to current appropriations available for the same purpose. However, the charges may not exceed one percent of the total appropriations for that account. Section 1556 requires the Comptroller General to report on appropriations, closing appropriation accounts, and unpaid obligations for which the period of availability for obligation has ended to the head of the agency, the Secretary of the Treasury, and the President. In July 2001 and June 2002, the General Accounting Office (GAO) reported its most recent reviews on closed DoD appropriations.<sup>6</sup>

**Comptroller General.** The Comptroller General has decided that an agency may adjust its accounting records of closed appropriation accounts to correct errors.<sup>7</sup> For example, an agency may adjust its accounting records to record disbursements made before the appropriation account closed if the disbursement was charged to the wrong appropriation. In addition, an agency may adjust its accounting records to include previously unreported disbursements made before the appropriation account closed. The disbursement must be properly chargeable to an obligation incurred during the appropriation's period of availability. In order to adjust its records, an agency must have sufficient documentation (such as original invoices and obligation documents) to show that the adjustment is legal and changes an incorrect charge to a correct charge. (See Appendix E for a discussion of the Comptroller General decision and DoD guidance for closed accounts.)

## Adjustment Approval

DFAS Cleveland and the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) improperly approved \$65.9 million in adjustments from the intergovernmental payments account to closed Navy appropriations. Without sufficient documentation, the adjustments should not have been approved and are, therefore, improper.

The approvals were made to clear transactions from the Navy intergovernmental payments account. The approvals (June 7, 2001, for \$53.5 million and October 19, 2001, for \$12.4 million) were based on requests from the Director, DFAS Charleston and research conducted by the Navy.

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<sup>6</sup> Report No. GAO-01-697, "Canceled DoD Appropriations: \$615 Million of Illegal or Otherwise Improper Adjustments," July 26, 2001, and Report No. GAO-02-747, "Canceled DoD Appropriations: Improvements Made But More Corrective Actions Are Needed," July 31, 2002.

<sup>7</sup> Comptroller General of the United States, Decision B-251287, "Department of the Treasury Request for Opinion on Account Closing Provisions of the Fiscal Year 1991 National Defense Authorization Act," September 29, 1993.

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## Documentation Supporting Adjustments

The Navy and DFAS Charleston did not provide sufficient documentation to support the \$53.5 million and \$12.4 million requests for adjustments from the intergovernmental payments account to closed appropriations.

**Documentation.** DFAS Charleston efforts to identify support for the \$53.5 million in payments illustrate the problems in obtaining documentation to substantiate aged appropriation and payment data. DFAS Charleston discontinued research to obtain supporting documentation after determining they could not obtain the documentation needed to clear payments from the account. DFAS Charleston determined that further research efforts to obtain documentation (such as obligating documents and disbursement vouchers) were not cost-effective. In addition, most of the documents were no longer available because the age of the disbursements exceeded the 6 year, 3 month record retention requirement.<sup>8</sup> The Under Secretary of Defense (Comptroller)/Chief Financial Officer staff emphasized that the documentation should be specific and conclusive and that no guesswork should be involved in identifying the specific appropriation to be charged.

Therefore, DFAS Charleston decided to use data maintained in the Standard Accounting and Reporting System Headquarters Claimant Module to clear the \$65.9 million in disbursements (87,579 transactions) from the intergovernmental payments account. The Standard Accounting and Reporting System Headquarters Claimant Module database was converted around 1992, from a previous version of the system. Records entered in the Standard Accounting and Reporting System Headquarters Claimant Module prior to 1985-1986 did not contain appropriation and payment information.

**Appropriation Identification.** DFAS Charleston matched the fund codes in the system with the current fund code dictionary to identify the probable appropriation<sup>9</sup> for each suspense transaction. DFAS Charleston used the current fund code dictionary to identify appropriations because the dictionary in use when the payments were made was no longer available. Some of the appropriations identified by the current fund codes were not in use when the transactions took place. The Navy used the unit identification code and the Julian date year that are included within the document number to identify the most likely appropriations to be charged. If the appropriation identified by the unit identification code did not agree with DFAS Charleston's recommendation, the Navy contacted the major systems commands to determine the appropriation to be charged.

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<sup>8</sup> The National Archives and Records Administration and DoD require financial records to be available for a period of 6 years, 3 months.

<sup>9</sup> The appropriation code for an expenditure account normally consists of seven digits. The first two digits identify the agency whose funds were spent (17 represents the Navy). The third digit identifies the fiscal year (0 represents FY 2000). The last four digits identify the account within a fund group (1804 is the account for Operations and Maintenance, Navy).

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Although the Navy, DFAS Charleston, and Office of Inspector General of the Department of Defense auditors tried, the reliability of the fund codes could not be assessed due to a lack of supporting documentation.

**Payment Date.** The interfund program did not capture dates for payments made prior to 1986 so the Standard Accounting and Reporting System Headquarters Claimant Module did not contain either the payment date or the date the payment was recorded in the intergovernmental payments account. DFAS Charleston used January 1, 2001, as the payment date in the Standard Accounting and Reporting System Headquarters Claimant Module for each of the transactions. Therefore, the Navy and DFAS Charleston were not able to determine whether the payment was made during the period an obligation was available for expenditure. If the payment was made after the period of availability, then current appropriations available for the same purpose should be charged.

## Adjustments Against Closed Appropriations

In February 2002, DFAS Cleveland transferred \$53.3 million in undistributed payments to closed appropriations from account F3875.004, "Budget Clearing Account (Suspense)," instead of from the intergovernmental payments account. In March 2002, DFAS Cleveland corrected the \$53.3 million error in account F3875.004 and transferred the funds from the intergovernmental payments account.

DFAS Cleveland made the adjustments to closed appropriations despite the results of a July 2001 GAO report on DoD compliance with the law (Report No. GAO-01-697, "Canceled DoD Appropriations: \$615 Million of Illegal or Otherwise Improper Adjustments, July 26, 2001). The GAO reported that DoD did not have adequate systems, controls, and managerial attention to ensure that the \$2.7 billion of adjustments affecting closed appropriation accounts made during FY 2000 were legal and otherwise proper. The GAO review of \$2.2 billion of the \$2.7 billion in adjustments found that approximately \$615 million (28 percent) of the adjustments should not have been made.

- \$146 million of adjustments violated specific provisions of appropriations law. The \$146 million included \$108 million charged to appropriation accounts that closed before the disbursements were made and \$38 million charged to appropriations that had not been enacted at the time the disbursements were made.
- \$364 million of adjustments should not have been made because the actual payments had been charged to the correct accounts.
- \$105 million of improper adjustments lacked sufficient supporting documentation.

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## Requirements for Documentation

The improper approvals probably would not have occurred if DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements, and Suspense Accounts,” January 2001, and DFAS Cleveland Standard Operating Procedure 7310.05, “Closed Appropriation Transaction Processing,” October 25, 2001, had more clearly and specifically described the documentation required to support adjustments from the intergovernmental payments account to closed appropriations. See Appendix E for a discussion of DoD guidance for closed accounts.

**DoD Financial Management Regulation.** The DoD Financial Management Regulation did not clearly and specifically describe the documentation required to identify the proper expenditure account or identify the responsible fund holder. The regulation did not describe the payment documentation required to verify whether the disbursement was made when the appropriation account to be charged was available to cover the disbursement. Furthermore, DoD guidance governing adjustments to closed accounts are spread across three chapters of the DoD Financial Management Regulation. The DoD Financial Management Regulation guidance is highly complex and detailed, and does not easily identify documents and evaluations needed to adjust the closed appropriation accounts. The inclusion of a flowchart would provide users of the regulation with a more comprehensive and clear understanding of the requirements for adjusting closed appropriations. The flowchart should map the decisions and documents required to adjust closed accounts and should be referenced to specific paragraphs in the guidance.

**DFAS Cleveland Standard Operating Procedure 7310.05.** DFAS Cleveland Standard Operating Procedure 7310.05 states that the “documentation should consist of enough to support the adjustment.” At a minimum, the procedure should specify that the documentation include original vouchers, obligating documents, obligation records, and a history of payments on the obligation (to verify that the payment is not a duplicate). Adjustments involving interfund bills should include the original detailed billing record. The procedures should also require DFAS Cleveland accountants to coordinate with the Office of Assistant General Counsel, DFAS Cleveland, to determine the propriety of adjustments to closed appropriations. Counsel assistance would be useful in assuring compliance with the United States Code and Comptroller General decisions.

Also, as part of DFAS Cleveland self-evaluation, DFAS Cleveland management control officials should review adjustments from the intergovernmental payments account to closed appropriations. Without this review, DFAS Cleveland will be unable to determine whether the adjustments were properly supported by documentation. See Appendix A for a discussion of the management control program review, including the adequacy of the DFAS Cleveland management controls and self-evaluation.

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## **DoD Legislative Proposal**

DoD developed a legislative proposal for clearing transactions from suspense accounts, including the intergovernmental payments account. Without legislative relief, the transactions could remain suspended in these accounts indefinitely and never be charged to DoD appropriations. In December 2002, a revised version of the DoD proposed legislation was included in the “Bob Stump National Defense Authorization Act for FY 2003,” (Public Law 107-314). DoD should ensure that its implementing regulation prescribes appropriate offsetting adjustments to the appropriation accounts.

## **Conclusion**

The Navy accounts for a significant portion of the balance in the DoD intergovernmental payments accounts. As of February 28, 2002, 91.8 percent (\$732.4 million) of the balance in the DoD accounts maintained by the Department of the Treasury were Navy funds. As indicated by our audit results, many transactions comprising the accounts maintained by Navy accounting activities are aged. Documentation no longer exists for transactions to conclusively demonstrate which appropriation should be charged.

The Navy and DFAS Charleston have made bona fide attempts to identify appropriations from available records. However, the DoD Financial Management Regulation did not provide sufficient guidance on the documentation required to support adjustment to closed appropriations. Therefore, the Under Secretary of Defense (Comptroller)/Chief Financial Officer should revise guidance to specify the documentation required to properly support adjustments to closed appropriations. The guidance should describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date. In addition, the guidance should include a flowchart mapping the decisions and documents required to adjust closed accounts referenced to specific paragraphs in the guidance. The improved guidance will assist accounting personnel in determining the minimum documentation that they can accept as support for adjustments to closed appropriations.

DFAS Cleveland should revise its standard operating procedures, reverse the \$53.3 million adjustment to closed appropriations and suspend adjustment action. Management should expand its self-evaluations of management controls to cover adjustments to closed appropriations to provide the oversight and improvement these issues require. The adjustments to closed Navy appropriations were improper and reflect an overall weakness in the control environment for the DoD FBWT account.



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## Recommendations and Management Comments

1. We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 3, chapter 11 “Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements, and Suspense Accounts,” January 2001, to:
  - a. Specify the documentation required to support adjustments from account F3885, “Undistributed Intergovernmental Payments,” to closed appropriations. The guidance should describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date.
  - b. Incorporate a flowchart mapping the decisions and documents required to adjust closed accounts referenced to specific paragraphs in the guidance.

**Management Comments.** The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurred and agreed to revise the DoD Financial Management Regulation to describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date, and to include a flowchart mapping the decisions and documents required to adjust closed accounts.

2. We recommend that the Director, Defense Finance and Accounting Service Cleveland revise DFAS Cleveland Standard Operating Procedure 7310.05, “Closed Appropriation Transaction Processing,” October 25, 2001, to:
  - a. Specify the documentation required to support adjustments from account F3885, “Undistributed Intergovernmental Payments,” to closed appropriations. The procedure should specify that the documentation include original vouchers, obligating documents, obligation records, and a history of payments on the obligation (to verify that the payment is not a duplicate).
  - b. Require DFAS Cleveland accountants to coordinate with the Office of Assistant General Counsel, DFAS Cleveland, to determine the propriety of adjustments from account F3885, “Undistributed Intergovernmental Payments,” to closed appropriations.

**Management Comments.** The Acting Director, DFAS Cleveland concurred and agreed to revise Standard Operating Procedure 7310.05 to clarify the supporting documentation required to identify the proper appropriation for adjustments and to add examples of documentation, based on coordination with the Office of the Assistant General Counsel, to identify the appropriation for transactions in suspense accounts.

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**3. We recommend that the Director, Defense Finance and Accounting Service Cleveland:**

- a. Reverse the \$53.3 million adjustment to closed appropriations and suspend adjustment action.**
- b. Review adjustments from the intergovernmental payments account to closed appropriations as part of DFAS Cleveland self-evaluations.**

**Management Comments.** The Acting Director, DFAS Cleveland concurred and agreed to reverse the transactions posted to closed appropriations back to account F3885 and to evaluate the adjustments process for the FY 2003 Annual Statement of Assurance.

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## Appendix A. Scope and Methodology

We reviewed actions taken by the Navy, DFAS Cleveland, and DFAS Charleston to clear charges from the intergovernmental payments account for authorized accounting activity 68342. Specifically, we reviewed \$65.9 million of approved adjustments from the intergovernmental payments account to closed appropriations (87,579 transactions) and related research actions, and electronic files. We also reviewed the methodology that DFAS Charleston and the Navy used to identify the appropriation for each transaction. In addition, we analyzed appropriation law and a Comptroller General decision on adjusting closed appropriation accounts. We also reviewed DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” and DFAS Cleveland standard operating procedures for rules on processing transactions against closed appropriations and documentation requirements to support adjustments from the intergovernmental payments account to closed appropriations. Also, we reviewed a legislative proposal for clearing transactions from the intergovernmental payments account. Further, we reviewed U.S. Treasury and DoD guidance for the intergovernmental payments account.

We interviewed operating personnel from the Navy, DFAS Cleveland, and DFAS Charleston. We coordinated our audit efforts with personnel from the Deputy General Counsel in the Office of the Inspector General of the Department of Defense and the GAO.

We performed this audit from September 2001 through June 2002 in accordance with generally accepted government auditing standards. We included tests of management controls considered necessary.

**General Accounting Office High-Risk Area.** The GAO has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

**Use of Computer-Processed Data.** We relied on computer-processed payment data from the intergovernmental payments account to support the finding. The payment data is contained in the Standard Accounting and Reporting System-Headquarters Claimant Module database maintained at DFAS Charleston for Navy-authorized accounting activity 68342. We did not perform a formal reliability assessment of the computer-processed payment data. We could not assess the accuracy of the computer-processed payment data because vouchers and other documentation supporting the payments were no longer available for review. We did not find errors that would preclude the use of the computer-processed payment data to meet the audit objectives or that would change the conclusions in the report.

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## Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of the Review of the Management Control Program.** We reviewed the Under Secretary of Defense (Comptroller)/Chief Financial Officer and DFAS Cleveland controls over adjusting closed appropriations. Specifically, we reviewed DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 3, January 31, 2001, and DFAS Cleveland Standard Operating Procedure 7310.05, "Closed Appropriation Transaction Processing," October 25, 2001, for controls over adjustments from the intergovernmental payments account to closed appropriations. We reviewed DFAS Cleveland management's self-evaluation applicable to those controls.

**Adequacy of Management Controls.** The Under Secretary of Defense (Comptroller)/Chief Financial Officer controls were generally adequate. However, we identified material management control weaknesses for DFAS Cleveland, as defined by DoD Instruction 5010.40. DFAS Cleveland management controls were not adequate to ensure that adjustments from the intergovernmental payments account to closed appropriations were properly supported by documentation. Recommendations in this report, if implemented, will improve DFAS Cleveland management controls over adjustments from the intergovernmental payments account to closed appropriations. A copy of the report will be provided to the senior official responsible for management controls in DFAS.

**Adequacy of Management Self-Evaluation.** DFAS Cleveland did not identify adjustments from the intergovernmental payments account to closed appropriations within its assessable units and, therefore, did not identify the material management control weakness identified by the audit.

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## **Appendix B. Prior Coverage**

The GAO and the Inspector General of the Department of Defense (IG DoD) have conducted multiple reviews related to financial statement issues. GAO reports can be accessed on the Internet at <http://www.gao.gov>. IG DoD reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>. The audit organizations have issued the following reports related to financial statement issues involving the FBWT account.

### **General Accounting Office**

Report No. GAO-02-747, "Canceled DoD Appropriations: Improvements Made But More Corrective Actions Are Needed," July 31, 2002

Report No. GAO-01-697, "Canceled DoD Appropriations: \$615 Million of Illegal or Otherwise Improper Adjustments," July 26, 2001

Report No. GAO-01-847, "Financial Management: Improvements in Air Force Fund Balance With Treasury Reconciliation Process," July 18, 2001

Report No. GAO/AIMD-99-271, "Financial Audit: Issues Regarding Reconciliations of Fund Balances With Treasury Accounts," September 17, 1999

Report No. GAO/AIMD-99-3, "Financial Audit: Issues Regarding Reconciliations of Fund Balances With Treasury Accounts," October 14, 1998

Report No. GAO/AIMD-97-104R, "Financial Audit: Reconciliation of Fund Balances With Treasury," June 24, 1997

### **Inspector General of the Department of Defense**

IG DoD Report No. D-2002-019, "Checks Issued Differences for Deactivated Disbursing Stations," November 28, 2001

IG DoD Report No. D-2001-024, "Performance Measures for Disbursing Stations," December 22, 2000

IG DoD Report No. D-2000-123, "Disclosure of Differences in Deposits, Interagency Transfers, and Checks Issued in the FY 1999 DoD Agency-Wide Financial Statements," May 18, 2000

IG DoD Report No. D-2000-044, "Reconciliation of Differences Reported for Checks Issued by the Defense Finance and Accounting Service Columbus Center Disbursing Stations," November 30, 1999

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## **Inspector General of the Department of Defense (cont'd)**

IG DoD Report No. 99-226, "Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 28, 1999

IG DoD Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999

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## **Appendix C. Statement of Transactions, Statement of Interfund Transactions, and the Fund Balance With Treasury Account**

As discussed in our prior reports on the FBWT account,<sup>\*</sup> each DoD disbursing station submits its monthly Statement of Accountability and Statement of Transactions to a finance center. Army disbursing stations report to Defense Finance and Accounting Service (DFAS) Indianapolis, Indianapolis, Indiana; Navy disbursing stations report to DFAS Cleveland, Cleveland, Ohio; Air Force disbursing stations report to DFAS Denver, Denver, Colorado; and U.S. Army Corps of Engineers (Corps) disbursing stations report to the Corps Finance Center, Millington, Tennessee.

Each finance center combines the Statements of Accountability received from its disbursing stations and electronically submits a combined Statement of Accountability to the Department of the Treasury using the Government On-line Accounting Link System II, a Federal financial telecommunications network. The finance centers also combine the Statements of Transactions and the Statements of Interfund Transactions and submit the combined statement to the Department of the Treasury every month.

The Department of the Treasury records the data from the statements in the FBWT account maintained for each appropriation in the U.S. Treasury's accounting and reporting system. Each month, the Department of the Treasury reports the outstanding balance in the FBWT account to each Government agency on Department of the Treasury Financial Management Service Form 6653, "Undisbursed Appropriation Account Ledger."

The Department of the Treasury sends the Undisbursed Appropriation Account Ledger to each agency on microfiche and electronically through the Government On-line Accounting Link System II. DFAS uses the Undisbursed Appropriation Account Ledger to adjust budgetary data to be reported monthly on SF 133, "Report on Budget Execution," and the Department of the Treasury Financial Management Service Form 2108, "Year-end Closing Statement."

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<sup>\*</sup> IG DoD Report No. D-2002-019, "Checks Issued Differences for Deactivated Disbursing Stations," November 28, 2001; and IG DoD Report No. D-2001-024, "Performance Measures for Disbursing Stations," December 22, 2000.

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## Appendix D. U.S. Treasury and DoD Guidance for the Intergovernmental Payments Account

**U.S. Treasury Guidance.** Volume I, part 2, chapter 1500, “Description of Accounts Relating to Financial Operations,” April 5, 2001, of the Treasury Financial Manual, describes Federal accounts. Section 1520.25, “Clearing Accounts,” states that the Department of the Treasury Financial Management Service established clearing accounts to temporarily hold unidentified collections that subsequently will be credited to the proper receipt or expenditure account of the Federal entity. Clearing accounts are preceded by an “F” followed by a fund account symbol in the “3800” series group. Agencies should use account F3885, “Undistributed Intergovernmental Payments,” to temporarily credit unclassified transactions between Federal agencies, including On-line Payment and Collection transactions.

**DoD Guidance.** DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements, and Suspense Accounts,” January 2001, requires accounting offices to use clearing account F3885, “Undistributed Intergovernmental Payments,” to record intergovernmental payments with an invalid or incorrect fund citation while the transaction is under research. A payment transaction with an invalid or incorrect fund citation may not be able to be matched to its corresponding obligation or recorded against its proper expenditure account.

Section 1115, “Budget Clearing Account (Suspense),” F3875, and “Undistributed Intergovernmental Payments,” F3885, requires accounting offices to use account F3885 to record questionable On-line Payment and Collections, SF 1080, or interfund transactions, when the questionable fund citation cannot be corrected before month-end reporting. Accounting offices and disbursing stations must resolve questionable On-line Payment and Collections and SF 1080 transactions in account F3885 within 60 days and questionable interfund transactions within 6 months of initially recording a charge into the account.

In addition, section 1115 requires DFAS to establish procedures for aging, monitoring, and reporting transactions recorded in account F3885. The DFAS centers must apportion and distribute year-end balances in account F3885 to the predominant appropriation accounts for reporting to the Department of the Treasury at fiscal year-end. After year-end, these apportioned balances must be transferred back to the applicable F3885 account. Further, section 1117, “Maintenance of Adequate Records,” requires DoD Components and accounting offices to maintain an audit trail with adequate records to substantiate all transactions, amounts, and actions with respect to the research and clearing of unmatched disbursements.



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DoD Regulation 7000.14-R, volume 11B, chapter 61, "Progress Billings, Reimbursements, and Revenue Recognition," December 1994, and DoD Manual 4000.25-7M, "Military Standard Billing System (MILSBILLS)," February 19, 1988, provide additional requirements regarding interfund transactions. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer is replacing chapter 61 with chapter 11, "Reimbursements and Revenue Recognition."

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## Appendix E. Comptroller General Decision and DoD Guidance for Closed Accounts

**Comptroller General Decision.** Comptroller General Decision B-251287, “Department of the Treasury Request for Opinion on Account Closing Provisions of the Fiscal Year 1991 National Defense Authorization Act,” September 29, 1993, discusses a Department of the Treasury (Treasury) request for an opinion on questions raised by the DoD regarding the account closing provisions of the FY 1991 National Defense Authorization Act (Public Law 101-510). Treasury asked two specific questions. First, Treasury asked whether it may restore either unobligated or obligated appropriation account balances that were canceled due to reporting errors or clerical mistakes. The Comptroller General concluded that Treasury may do so. The Comptroller General stated that:

In this sense, the Treasury adjustment of the accounting records does no more than place the funds back into the account where they otherwise belong. As the Supreme Court observed in a related situation, it “would be unrealistic . . . to require congressional authorization before a data processor who misplaces a decimal can ‘undo’ an inaccurate transfer of Treasury funds.” Republic National Bank of Miami v. United States, 506 U.S. 80, 89-92, 113 S. Ct. 554, 561 (1992).

We wish to emphasize, however, that Treasury’s authority to correct the accounts relates only to obvious clerical errors such as misplaced decimals, transposed digits, or transcribing errors that result in inadvertent cancellations of budget authority, and is not meant to serve as a palliative for deficiencies in DoD’s accounting systems. . . .

In our view, the type of clerical errors that Treasury can correct should typically manifest themselves soon after an account is closed. The passage of time only magnifies the difficulty inherent in reconstructing the facts needed to establish the error. Therefore, we recommend that Treasury establish reasonable time limits within which agencies must submit requests for correction of reporting errors resulting from obvious clerical mistakes.

Second, Treasury asked whether it may record as a payment from a canceled account a disbursement made prior to cancellation of the account. The Comptroller General concluded that Treasury may do so. The Comptroller General stated that:

Since the liquidation of the obligation eliminates the budget authority, leaving nothing to be canceled, recording the disbursement is neither a new obligation of, nor an expenditure from, a closed account. It is merely an accounting entry to reflect the liquidation of an obligation validly incurred and liquidated prior to cancellation. . . .

The liquidation of the obligation eliminates the underlying budget authority, leaving nothing to be canceled. It completes the transaction and discharges the government’s liability. The recording of the disbursement made prior to cancellation of the expired

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account is simply an accounting entry to reflect the completion of the transaction before cancellation of the expired account. We see no reason why DoD and Treasury should not record these disbursements for canceled “M” account or expired account balances.

Accordingly, if DoD is able to establish to the satisfaction of the Treasury that a validly recorded obligation in a canceled appropriation account was liquidated before cancellation, then Treasury may adjust the canceled appropriation account balance to reflect the disbursement. If a disbursement that was made before cancellation of an appropriation account cannot be matched with a recorded obligation of a canceled account, but DoD can establish to the satisfaction of Treasury that the disbursement represents payment of a valid unrecorded obligation otherwise properly chargeable against the canceled appropriation account, then Treasury may adjust the canceled account balance to reflect the disbursement.

**DoD Guidance.** DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 3, chapter 10, “Accounting Requirements for Expired and Closed Accounts,” December 2000, implements certain provisions of title 31, United States Code, relating to expired and closed accounts. Chapter 10 requires accounting offices to charge disbursements to canceled appropriations when a disbursement is properly made before the cancellation of the appropriation to which an obligation was charged, but is not identified and matched with the proper obligation until after the cancellation of the appropriation.

Chapter 10 cites Treasury Bulletin 94-04, “Account Closing Provisions of the FY 1991 National Defense Authorization Act,” which contains procedures for requesting a correction to a closed account. Agencies may request a correction for:

- clerical errors such as misplaced decimals, transposed digits, or transcribing errors resulting in inadvertent cancellations of budget authority, and
- errors made in classifying a payment made prior to the closing of an account, but not discovered until after the account was closed.

For classification errors, the Treasury Department will accept reporting to correctly classify payments previously reported to suspense/clearing accounts, or correct classification errors between current and closed accounts.

Chapter 10 also discusses Comptroller General Decision B-251287.3, November 1, 1995, which supports Treasury Department adjustment of DoD canceled appropriation account balances to reflect disbursements made before closure of the accounts. The Comptroller General decision requires that the DoD support any adjustment with documentary evidence and that the adjustment withstand audit scrutiny. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial officer issued procedures that are included in chapter 11 of DoD Regulation 7000.14-R to implement Comptroller General Decision B-251287.3.

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DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 3, chapter 11, “Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements, and Suspense Accounts,” January 2001, includes requirements for researching and correcting unmatched disbursements and disbursements in suspense/clearing accounts. Section 1115, “Budget Clearing Account (Suspense),” F3875, and “Undistributed Intergovernmental Payments,” F3885, requires accounting offices to transfer each interfund disbursement recorded in account F3885 to its proper expenditure account within 6 months. Accounting offices must transfer each intergovernmental disbursement recorded in account F3885, other than interfund disbursements, to its proper expenditure account within 60 days. If the disbursement is not transferred to its proper expenditure account within these timeframes, the accounting office must charge the responsible fund holder. After a disbursement is transferred from a clearing account to a fund holder, the disbursement is treated as a matched disbursement, an unmatched disbursement, or a negative unliquidated obligation, as applicable. Accounting offices must obligate unmatched disbursements and negative unliquidated obligations as required by section 1105.

However, section 1115 does not clearly and specifically describe the documentation (such as vouchers, On-line Payment and Collection screens, SF 1080, billing records) required to identify the proper expenditure account or identify the responsible fund holder. If documentation is not available, then the accounting office should not transfer the disbursement to an expenditure account (either a current, expired, or closed appropriation), or charge a fund holder. The disbursement should remain suspended in the clearing account.

Section 1115 does not describe the payment documentation required to verify whether the disbursement was made when the appropriation account to be charged was available to cover the disbursement. The payment documentation must include the date of payment. Documentation on the payment date is essential to prevent illegal or improper adjustments to closed appropriations.\* If documentation on the payment date is not available, then the accounting office should not transfer the disbursement to an expenditure account or charge a fund holder. The disbursement should remain suspended in the clearing account.

Section 1105, “Responsibilities for Funding Overaged Unmatched Disbursements and Negative Unliquidated Obligations,” establishes responsibilities for recording transactions when the accounting office has, or does not have the obligation document. This section also identifies accounting office responsibilities for accounting records and controls over closed appropriations.

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\* The GAO has determined that “An adjustment to a closed appropriation account is illegal if the appropriation account being charged (1) closed before the initial disbursement was made or (2) had not yet been enacted when the initial disbursement was made. Otherwise improper adjustments occur when accounting records show that no adjustment was necessary because the initial payment was charged correctly or there is not sufficient documentation available to determine if the initial disbursement charge is incorrect and that the adjustment corrected an error.”

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Section 1109, “Corrections and Postings of Prior Disbursements Involving Appropriated Funds,” cites procedures for recording corrections of prior disbursements erroneously charged to the wrong obligation. This section includes procedures for corrections of closed appropriations when the disbursement occurred before closure, including procedures to follow whether the correct obligation is identified.

DoD Regulation 7000.14-R, the “DoD Financial Management Regulation,” volume 3, chapter 8, “Standards for Recording and Reviewing Commitments and Obligations,” November 2000, sets forth the basis for determining the amount and accounting period to record commitments and obligations, including when the official accounting records do not contain an obligation prior to disbursement. Chapter 8 permits obligations to be recorded only when supported by documentary evidence of the transaction. Prior to recording an obligation, the accounting office responsible for the official accounting records of the fund holder must have a copy of the obligating document. The accounting office must verify that the document previously was not recorded in the official accounting records under the applicable obligation reference number indicated. The verification process also must include an appropriate review (e.g., review by amount, appropriation, and vendor name) to determine whether the obligation is recorded under another reference number, to include unrecorded modifications that are controlled in other obligating documents.

DFAS Cleveland Standard Operating Procedure 7310.05, “Closed Appropriation Transaction Processing,” October 25, 2001, establishes DFAS Cleveland procedures for transactions citing closed appropriations. Section 7.4 requires the discovering office to review the voucher and attachments to identify erroneous disbursements that require an adjustment to the unobligated balance of a closed appropriation. The section states that the “documentation should consist of enough [documentation] to support the adjustment.” The discovering office and accounting office should agree on the propriety of the proposed adjustment.

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## **Appendix F. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Defense Finance and Accounting Service Cleveland  
Director, Defense Finance and Accounting Service Charleston

### **Non-Defense Federal Organizations**

Office of Management and Budget  
General Accounting Office

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

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## Under Secretary of Defense (Comptroller)/Chief Financial Officer Comments



COMPTROLLER

UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

NOV 14 2002

MEMORANDUM FOR DIRECTOR, DEFENSE FINANCIAL AUDIT SERVICE, OFFICE OF  
THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Adjustments to the Intergovernmental Payments Account  
(Project No. D2001FD-0192.000)

This is in response to your memorandum of August 30, 2002, forwarding subject draft audit report to this office for review and comment. This office concurs with Recommendation 1 of the report.

I am providing more detailed comments at the attachment. My point of contact for this matter is Mr. Oscar G. Covell. He may be reached by e-mail: [covello@osd.pentagon.mil](mailto:covello@osd.pentagon.mil) or by telephone at (703) 697-6149.

Dov S. Zakheim

Attachment



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INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (IG, DOD) DRAFT REPORT  
AUGUST 30, 2002 (PROJECT NO. D2001FD-0192.000)

"DRAFT AUDIT REPORT ON ADJUSTMENTS TO THE INTERGOVERNMENTAL  
PAYMENTS ACCOUNT"

DEPARTMENT OF DEFENSE (DOD) COMMENTS  
TO THE IG, DoD RECOMMENDATIONS

RECOMMENDATION 1: The IG, DoD recommended that the Under Secretary of Defense (Comptroller)/Chief Financial Officer revise DoD Regulation 7000.14-R, the Department of Defense Financial Management Regulation ("DoDFMR,") Volume 3, Chapter 11, "Unmatched Disbursements, Negative Unliquidated Obligations, In-transit Disbursements and Suspense Accounts," January 31, 2001, to:

- a. Specify the documentation required to support adjustments from account F3885, "Undistributed Intergovernmental Payments," to closed appropriations. The guidance should describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date, and
- b. Incorporate a flowchart mapping the decisions and documents required to adjust closed accounts referenced to specific paragraphs in the guidance.

DOD RESPONSE: The Department concurs. Volume 3, Chapter 11, of the "DoDFMR" will be updated to describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date. A flowchart mapping the decisions and documents required to adjust closed accounts will be incorporated in Chapter 11.

Attachment

# Defense Finance Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE  
CLEVELAND CENTER  
1240 EAST NINTH STREET  
CLEVELAND, OH 44199-2055



DFAS-AJI/CL

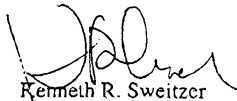
OCT 30 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE (ATTN: MR. BRIAN FLYNN)

SUBJECT: OIG Draft Report, Project No. D2001FD-0192.000, "Adjustments to the  
Intergovernmental Payments Account," August 30, 2002.

The Defense Finance and Accounting Service is providing the attached response to the  
subject draft audit report (Attachment 1).

The point of contact is Mr. Stanley Koch, 216-204-7066 or DSN 580-5628.

  
Kenneth R. Sweitzer  
Acting Director

Attachment:  
As stated

cc:  
DFAS-DDI/AR  
DFAS-DAS/AR

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**DFAS Comments to OIG Draft Report, Project No. D2001FD-0192.000,  
"Adjustments to the Intergovernmental Payments Account,"  
dated August 30, 2002**

**Recommendation 2.a.** We recommend that the Director, Defense Finance and Accounting Service Cleveland, revise DFAS Cleveland Standard Operating Procedure 7310.05, "Closed Appropriation Transaction Processing," October 25, 2001 to specify the documentation required to support adjustments from account F3885, "Undistributed Intergovernmental Payments," to closed appropriations. The procedure should specify that the documentation include original vouchers, obligation documents, obligation records, and a history of payments on the obligation (to verify that the payment is not a duplicate).

**Management Comments.** Concur. DFAS Cleveland will revise Standard Operating Procedure (SOP) 7310.05 to clarify the supporting and substantiating documentation required to identify the proper appropriation for adjustments.

**Estimated Completion Date.** January 15, 2003.

**Recommendation 2.b.** We recommend that the Director, Defense Finance and Accounting Service Cleveland, revise DFAS Cleveland Standard Operating Procedure 7310.05, "Closed Appropriation Transaction Processing," October 25, 2001 to require DFAS Cleveland accountants to coordinate with the Office of Assistant General Counsel, DFAS Cleveland, to determine the propriety of adjustments from account F3885, "Undistributed Intergovernmental Payments," to closed appropriations.

**Management Comments.** Concur. DFAS Cleveland will revise SOP 7310.05 to add examples of documentation to identify the appropriation for transactions in suspense accounts. This will be coordinated with the Office of the Assistant General Counsel to review the propriety of the guidance with respect to processing adjustments from account F3885, "Undistributed Intergovernmental Payments," to closed appropriations.

**Estimated Completion Date.** January 15, 2003.

**Recommendation 3.a.** We recommend that the Director, Defense Finance and Accounting Service Cleveland, reverse the \$53.3 million adjustment to closed appropriations and suspend adjustment action.

**Management Comments.** Concur. DFAS will reverse the transactions posted to closed appropriations back to suspense account F3885. If the Department of Defense is granted the one-time relief requested in the legislative proposal to clear suspense accounts and check issue discrepancies, then the Department of Defense will clear the transactions from suspense under that authority.

**Estimated Completion Date.** November 15, 2002.

**Recommendation 3.b.** We recommend that the Director, Defense Finance and Accounting Service Cleveland, review adjustments from the intergovernmental payments account to closed appropriations as part of DFAS Cleveland self-evaluations.

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**DFAS Comments to OIG Draft Report, Project No. D2001FD-0192.000,  
“Adjustments to the Intergovernmental Payments Account,”  
dated August 30, 2002**

**Management Comments.** Concur. The testing and continuous evaluation of the processes of adjustments will be certified in annual Management Control Evaluations (MCE) of appropriate assessable units at DFAS Cleveland and its Field Sites as part of the Annual Statement of Assurance Fiscal Year 2003 cycle.

**Estimated Completion Date.** September 30, 2003.

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## Team Members

The Defense Financial Auditing Service, Office of the Assistant Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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